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GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

REGIONAL COOPERATION

Summary of the survey of economic and social conditions in Africa, 1989-1990

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I. THE AFRICAN ECONOMY IN 1990: AN OVERVIEW

1. There was a marked slow-down of economic activity in developing Africa in 1990, with output growing by only 2.6 per cent, nearly 1 per cent less than in 1989, when the growth rate reached 3.3 per cent. A rather poor agricultural season, with drought in some areas of the Sahel, the Horn of Africa and southern Africa, and the rise of oil prices after the Iraqi invasion of Kuwait were the main causes of the slow-down. Oil exporters naturally benefited from the higher oil prices after 2 August 1990. At that time, there had been already a rise in oil prices from their trough of early July to around $20 a barrel, following new Organization of Petroleum Exporting Countries (OPEC) quotas. Afterwards, oil prices rose rapidly to a peak of $40 per barrel at the end of October, and then edged down when OPEC quotas were suspended, oil producers rushing to fill the gap created by the closing off of Iraq and Kuwait supplies. African producers with excess capacity profited heavily; African oil production rose by nearly 12 per cent to 325.5 million tons; and oil exporters' exports by almost $16 billion. The output of African oil exporters went up by 3.7 per cent, half a percentage more than in 1989, when it had recovered from the slump of 1986-1988.

2. A boon for oil exporters, the higher oil prices were a deep shock for the oil importers. Faced with a suddenly increased oil bill, and forced in many cases to impose rationing and raise domestic oil prices (in Mauritius for example, gasoline prices went up from Rs 35 a gallon in 1989 to an average Rs 50 a gallon in 1990, a 43 per cent increase), they also had to cope with an unfavourable agricultural season. In developing Africa, agricultural production increased by only 1.5 per cent in 1990 and, as drought has hit many areas, the population exposed to famine now numbers some 27 million. Output growth in oil-importing countries was therefore disappointing, falling to 1.4 per cent compared to 2.3 per cent in 1989.

3. If oil prices increased in 1990, commodities prices were generally weak during the year. According to the International Monetary Fund (IMF), they fell by an average 7.9 per cent after a drop of less than 1 per cent in 1989. Tropical beverages prices were lower in 1990 by an average 11.4 per cent, continuing the slide begun in 1986. Despite a rally in the middle of the year, copper prices fell back and on average were 6.9 per cent lower than in 1989. African oil-importing countries could not therefore expect much stimulus from their external sectors, even more so given that rising inflation in industrialized countries was making their imports more costly and that recession was cutting demand for their exports.

4. There have been wide variations in performance among the subregions and countries of the continent. However, a worrying pattern, which confirms the severity of the slow-down, is that the number of countries with a fall of output has risen from 8 in 1989 to 15 in 1990, the largest number since 1987. If North Africa, with three major oil producers, has done well, its output growing by 3.2 per cent, sub-Saharan Africa has suffered a near recession, with a growth rate of only 2.0 per cent. The most affected subregion has been

East Africa, where output has grown at a rate of only .9 per cent, compared to 3.7 per cent in 1989. In Central and West Africa, results have been influenced by the presence of oil-exporting countries, particularly Nigeria. But even then, the economy has not shown spectacular growth in those two subregions, with respective growth rates of 2.1 and 2.2 per cent, which are below population growth. In West Africa, certain parts of the Sahel have been hit by drought, and output there has fallen by 1.2 per cent. Côte d'Ivoire is still in a deep recession, and its economy contracted by 4.5 per cent in 1990. In Central Africa, the largest country in the subregion, Zaire, has shown no growth in 1990. Among the oil exporters, Nigeria, which has benefited from a particularly high windfall, has reached an impressive 4.1 per cent gross domestic product (GDP) growth rate. Gabon has done even better with more than 10 per cent, but Cameroon has stagnated with only 1 per cent.

5. In these difficult circumstances, African countries have continued to undertake and implement reform and adjustment programmes despite the social and political costs involved. In Algeria, the Government has expanded the scope of liberalization to investment and the banking sector. In Nigeria, the adjustment programme has been reaffirmed and a new stand-by agreement signed with the International Monetary Fund (IMF). In Zimbabwe a wide-ranging policy statement has outlined significant changes in economic policy which would liberalize the foreign trade regime, relax economic controls and encourage foreign investment. In Angola, the economic recovery programme has been set into motion by the 50 per cent devaluation of the Kwanza. In Ethiopia, under the New Economic Policy, internal trade has been liberalized allowing farmers to sell their produce on the open market, while private investment is now encouraged.

6. Though exports have risen to their highest level since 1981, the current account deficit has nevertheless increased to some $11 billion (3.3 per cent of GDP) from $8.9 billion in 1989 (3.0 per cent of GDP). This points to a probable worsening of the debt crisis. Total debt for the region, which was $265.4 billion in 1989, has increased to $271.9 billion in 1990.

II. MAJOR SECTORS

A. Agriculture

7. As already mentioned, African agriculture suffered in 1990. While production did rise by 1.5 per cent, more therefore than the .5 per cent achieved in 1989, it was at a rate of only half the population growth. The rain pattern was quite unfavourable, and some areas were hit by drought. In the western Sudan, eastern and western Ethiopia, central and southern Angola, and in the Sahel and northern Nigeria, there were total or partial crop failures exposing millions to the risk of famine. Civil strife in Liberia, which has forced some 1.5 million people to leave their homes, has been another cause of food shortage. Including Mozambique, the Food and Agriculture Organization of the United Nations (FAO) estimates than 27 million people are in need of food aid, and that the 1990/91 African food import

requirement is at 17.0 million tons. African cereal production has in fact dropped to 75.6 million tons, 4.6 per cent less than in 1989 and 6.8 per cent lower than the bumper 81.1 million ton harvest of 1988. The output of roots and tubers, the stable food in much of tropical Africa (Gulf of Guinea, Central and Southern Africa) is at 100 million tons, only slightly more than in 1989.

8. However, apart from the drought-stricken areas, the food situation is normal and the situation is not as dangerous as it was during the great famine of 1984-1985. But prompt action by Governments, international organizations and other donors is essential to avert a tragedy in the Sudan and northern Ethiopia.

9. The production of industrial crops has been generally higher in 1990 than in 1989, but in this case, demand and prices are the most important factors to consider. Cocoa production has risen to 1,370 thousand tons, but it has fallen by some 50,000 tons in Côte d'Ivoire, the world's largest producer. Cocoa prices did not fall in 1990 as they did in the period 1987-1989, but they increased by only 2 per cent and remained at an unremunerative level. Coffee prices continued to lose ground, with a fall of 28.6 per cent for robustas, which constitute the larger part of African coffee production. Tea prices also were lower on average in 1990 than in 1989, by close to 7 per cent. However, African production has moved up, particularly in Kenya, which has increased by 11.1 per cent to 190,000 tons. Cotton production was affected by poor weather in the Sahel and southern Africa but rose in Egypt and the Sudan. Production in Egypt was reported at 900,000 tons, while in the Sudan it remained at 420,000 tons, nearly 100,000 tons lower than in 1988. Strong world demand for cotton boosted prices, the Liverpool index price being 8.9 per cent higher than in 1989, though the prices for the Sudan barakat cotton have dropped some 22.4 per cent over the 1989 level. Sugar production has been mixed, with a recovery in some big producers, such as Egypt, Mauritius and the Sudan, and stagnation elsewhere. Prices have edged down, the International Sugar Agreement preference price falling to 9.9 cents per pound in December 1990. Tobacco production has risen by some 6.8 per cent. Prices have been very favourable, surging by 50 per cent for Zimbabwe flue-cured tobacco.

10. In most African countries, government policies are now firmly oriented towards encouraging production through higher prices, liberalized trade and other incentives, and direct controls on the peasants are relaxed or removed. A good example are the measures already alluded to in Ethiopia to allow farmers to sell their produce on the free market, instead of the previous system of selling specified quotas to the Grain Marketing Corporation. Production has responded strongly in those areas which have had normal weather, and prices of grain on the free market have dropped significantly. A similar approach is being pursued in Angola in the economic recovery programme and the government action programme (PAG). In Tanzania and Zambia, private traders are now licensed for international transactions in cereals, and in Mozambique privatization of large-scale farms is under way.

11. In Egypt, the liberalization of agriculture has started to bear fruit as evidenced by a bumper cereal crop of 11.8 million tons and a rise in agricultural production of 5.3 per cent. Egypt is the largest cereal importer in the region, importing 8.8 million tons in 1989-1990, a third of the region's total. To provide minimum living standards, the Government has been spending considerable sums on food subsidies.

12. Prospects for 1991 appear to be mixed. A normal rain pattern is being reported in most regions, for example, in northern Africa and East Africa, but in southern Africa, crop prospects for the April harvest are unfavourable. In all probability agricultural production will be only average in 1991.

B. Mining

13. Crude oil production increased strongly in 1990, because of the suspension of the OPEC quotas, to reach a total of 325.5 million tons, equivalent to 6.44 million barrels a day (b/d). OPEC countries increased their production faster than non-OPEC countries, with a growth rate of 15.0 per cent compared to 3.5 per cent. The largest gains were made in the Libyan Arab Jamahiriya which raised production to 1.4 million b/d compared to 1.11 million b/d in 1989, an increase of 26 per cent, in Gabon, where production rose from 214,000 b/d in 1989 to 274,000 b/d in 1990, an increase of 28 per cent. The Libyan Arab Jamahiriya has probably reached the limits of its production capacity, and it is doubtful that it can sustain the level reached in the first quarter of 1991, or 1.7 million b/d. In Gabon, production rose with the start of the exploitation of the new Rabi Kounga field and is expected to reach some 13 million tons in 1991. Nigeria raised its oil production by 10.4 per cent, as did Algeria if condensates are included in crude oil production.

14. Gas production has probably reached some 74 billion m^3, 9 per cent more than in 1989. Gas is not subject to OPEC quotas, but until now much of it has been flared on oil fields. The only African producer which has fully used its gas potential is Algeria, which is exporting large quantities to the European market and is planning to further increase these exports in the coming years. In 1990, Algerian gas production reached 45 billion m^3, and exports have overtaken crude oil exports. Other African gas producers are now striving to better use their gas deposits, particularly Nigeria, where up till now gas with a potential yearly value of $4.0 billion has been flared. In the same way, Nigeria projects to develop its condensate resources which, like gas, are not subject to OPEC price and quantities limits.

15. Non-fuel minerals production stagnated in 1990, following a trend begun in 1987. An index of production based on 198[illegible] prices shows that production increased by only 5 per cent in the period 1985-1989, and that in 1990 it fell by 2.2 per cent. On the other hand, the value added of mining production in developing Africa, excluding oil exporters, increased by only 1.7 per cent in 1990, and value added in mineral exporting countries decreased by 3.2 per cent.

16. This trend is the result of various causes, such as the lack of investment, the depletion of some deposits, the ageing of equipment and inadequate management. Particularly concerned are countries such as Zaire and Zambia, which are major producers of copper and cobalt. In Zaire, copper production could fall in 1991 to a figure as low as 350,000 tons, and in Zambia, copper production is declining because the deposits are being depleted and because of the increasing difficulty of getting at the ore. In Zaire, production in 1990 has been reduced by a cave-in accident at the Kamoto mine.

17. Mineral and ore prices have not otherwise been favourable in 1990. The IMF index shows that, on average, they have fallen by 9.5 per cent in 1990, while the United Nations Conference on Trade and Development (UNCTAD) index shows a fall of 9.1 per cent. The price of copper fell by 6.5 per cent and was down in December 1990 to $1.12 per pound compared to a peak of nearly $1.60 in December 1987. Given the recession in industrialized countries, demand prospects in 1991 for copper are not bright. Nickel prices, like copper prices, have gone down sharply because of the fall in the demand for steel in industrialized countries. Prices which peaked in 1988 at $6.25 per pound were down in 1990 to $4.02 or 35.7 per cent less.

18. Gold prices, which usually go up in times of crisis, failed to do so during the Gulf crisis. There was only a small rise in gold prices in 1990, of less than 1 per cent; prices nevertheless remained much lower than in the first part of the 1980s. However, gold production remains profitable in many African producer countries. In Ghana, where the Government has made great efforts to encourage private investment, production is growing rapidly and may be as high as 14 tons in 1990.

19. Prospects for the mining sector vary widely depending on whether one considers fuels or non-fuels. As concerns fuels, the fall in oil prices since the beginning of 1991, despite the Gulf crisis and the damage to oil installations in Kuwait, means that prices are unlikely to rise above $20 a barrel. This will probably increase the pressure within OPEC to cut production, although large cuts are unlikely since both Kuwait and Iraq are still not exporting and since many producers will find it difficult to cut production at the present time. This may be the case of countries such as Gabon.

20. For non-fuel minerals, the course of the world recession will be the determining factor. In any case, recovery before the end of 1991 is improbable and, as a consequence, prices will remain depressed. Moreover, investment in African mining may not be as high as is necessary, given the opportunities open to Western investors in Eastern European countries.

C. Manufacturing

21. The African manufacturing industry remains in a depressed state. In the period 1980-1989, its rate of growth was only 2.7 per cent, much lower than would be necessary to reach even the modest objective set by the First

Industrial Development Decade for Africa 1/ (a 2 per cent share of world manufacturing output by the year 2000). Its share of total output has remained very low, at only 11 per cent, and has declined in some countries.

22. With a few exceptions, all those countries which made important investments in industry have achieved only disappointing results, and to survive, their industrial sectors are now in need of basic restructuring. In Algeria, where heavy investment has been made in petrochemicals and other hydrocarbon-based industries, many of the plants created to maximize the use of the country oil and gas resources have been poorly designed, are too costly or are poorly managed. At the present time, the Algerian Government is pressing ahead with a reform programme for the industrial sector which has already produced a complete overhaul of management structures, while a special fund has been created to wipe out industry losses.

23. In Zaire, the manufacturing sector, which was relatively developed at the time of independence, has practically not grown since the early 1970s; its volume in 1989 was only 3.4 per cent higher than in 1970. In Zimbabwe, a country with a relatively developed industrial base at the time of independence, manufacturing accounted for 24 per cent of GDP in 1980, more than twice the average African share. There has been no fundamental change in the 1980s - investment lagged and equipment aged. As a consequence, manufacturing has been unable to create jobs despite increasing pressure on the job market.

24. The output of the manufacturing sector in 1990 was under the average for the period 1980-1989, value added growing by a mere 1.6 per cent. The poor agricultural year has been translated into a lower supply of agricultural inputs, while higher oil prices and lower exports for countries depending on basic commodities have depressed domestic demand. A good example is Zaire, where the beverage industry, normally the most dynamic branch of manufacturing, has suffered substantial sales cuts. Even in such oil exporters as Algeria, the structural weaknesses of the manufacturing sector have prevented any substantial recovery.

25. The problems faced by African manufacturing are such that the United Nations has decided to proclaim the Second Industrial Development Decade for Africa. 2/ The objectives of the second Decade are similar to those of the first and will require substantial investment both to rehabilitate existing plants and to create new ones. Given the demand for capital world wide, prospects do not appear to be favourable, at least in the short term.

III. THE EXTERNAL SECTOR

26. The value and volume of trade in developing Africa increased in 1990. The value of exports went up to $72.4 billion from $62.7 billion in 1989, a 15.5 per cent increase; volume increased by 2.3 per cent and unit value by 12.8 per cent. The value of imports increased by 13.6 per cent to $76.3 billion, volume going up by 4.2 per cent and unit values by 9.1 per cent.

27. The rise of export values, which brought them back to the level of the early 1980s, was a consequence of the higher oil prices which prevailed after the breakout of the Gulf crisis. After the Iraqi invasion of Kuwait on 2 August 1990, oil prices climbed to an average level of $28.4 a barrel during the second half of 1990, compared to $18.2 in the first half. Moreover, the suspension of OPEC quotas made possible a more than 11 per cent increase in production. As a result, the export receipts of oil exporters which were at $41.6 million in 1989 climbed to more than $51.5 billion in 1990. For oil importers, exports did not improve and, in fact, on present estimates, dropped slightly from $21.1 billion in 1989 to $21.0 billion in 1990. In volume terms, oil importers' exports have fallen.

28. The driving force behind the increase of imports was the higher revenues earned by oil exporters. Although they took pains not to spend their windfall in an import spree, they still increased imports of industrial inputs and equipment and provided for some rise in consumer goods expenditure. In fact, while oil exporters' imports increased by 16.8 per cent, those of oil importers rose by only 9.8 per cent, which translates into almost no gain in volume (import unit values rose by 9.1 per cent).

29. Export prices have already been discussed in previous pages. However, it is worthwhile to observe that while the commodity index of the Economic Commission for Africa (ECA) shows a rise of 17.1 per cent, the sub-index for non-oil commodities dropped by 4.8 per cent, for minerals and metals by 3.6 per cent and for beverages by 16.7 per cent. These figures, which are in agreement with those calculated by IMF and UNCTAD, reflect the specific structure of African exports.

30. Despite higher exports, the aggregate current account balance for developing Africa worsened in 1990, the deficit rising slightly to $11 billion compared to $9.8 billion in 1989. One explanation is the spill-over from the Gulf crisis in terms of higher transportation and insurance costs, decreased tourist earnings and losses of remittances and transfers from workers in the Gulf area.

31. In 1989, net resource flows to developing Africa amounted to $24.6 billion and, in volume terms, were 2.9 per cent higher than in 1988, though only slightly more than in 1987. As before, official development assistance is the main component of resource flows, as export credits have turned negative and private flows remained constant at around $4.0 billion.

32. Debt reached a total of $271.9 billion in 1990, a figure which may be revised later. There was some improvement in the debt situation, since it rose by only 2.4 per cent and fell in relative terms either as a proportion of GDP or a proportion of exports of total goods and services. After having fallen to 26.8 per cent in 1989, debt service rose to nearly 30 per cent of goods and services exports. Clearly there is no lightening of the debt burden of African countries, and urgent measures, which must go beyond the ones contained in the current Toronto and Brady plans, need to be taken to reduce debt.

IV. OUTLOOK

33. Economic prospects in 1991 appear rather mixed. The recession in industrialized countries is taking hold, and such countries as Germany, France and Japan are being in their turn affected. This means low demand for African exports, whether for oil or non-oil commodities. From the financial perspective, the United States and other large industrialized countries are experiencing a capital crunch because of the overexposure of banks and other lending institutions and because of the needs of Eastern European countries and the Soviet Union. There is therefore not much to expect in terms of additional resource flows to African developing countries, given that their debt burden remains unmanageable and could be made worse by a rise in interest rates.

34. Oil prices, which were expected to remain in the range of $25-$26 a barrel in the best of circumstances (the Gulf crisis without major damage to oil installations), have in fact been falling even before the outbreak of crisis. By late April 1991, oil prices were under $20 a barrel and have averaged $21 in the first quarter of the year. In the best of circumstances, oil revenues will fall in 1991, perhaps by around 10 per cent, and this evidently will have adverse repercussions on the economy of African oil exporters. They will have less money for imports, and therefore less with which to invest and pay for industrial inputs and consumer goods. Given the debt service obligations of many of the African oil exporters, their economies could grow more slowly in 1991 than in 1990. However, with the present reform and recovery programmes, other parts of the economy could very well do better, as has been shown by the manufacturing industry in Nigeria. A good performance of the non-oil sector of the economy could then well outbalance less favourable results in the oil sector.

35. For African oil importers, the oil shock of the second half of 1990 is over, and falling oil prices in 1991 are undoubtedly positive developments. Apart from a lower oil bill, there should be less costly insurance and freight rates and a revival of tourism, which has been depressed by the fear of war and violence. How agriculture will do is crucial. The weather pattern is a determining factor, and there is information that the rainy season has begun in southern Africa and that rains have been normal in Eastern and North Africa. However there is concern about the poor distribution of rains in southern Africa, and in Morocco, rains have been below average. In Angola, which suffered a drought in 1990, there have been heavy rains, and the drought can be considered to be over. Given the greater stability of the weather in Central Africa, it is probably safe to look for an average agricultural year in 1991, perhaps better than in 1990.

36. Policies will play also an important role. On the basis of current information, it is clear that Governments are turning more and more towards giving greater incentives to firms and households.

37. Investment is also a matter of serious concern. Capital formation declined in developing Africa during the 1980s and in the present situation, there are not enough resources, domestic or foreign, to finance the level of investment which would be necessary for faster economic growth. However, this should be tempered by the observation that high levels of investment in the early 1980s have not been followed by fast growth because of the inadequate character of the investment made. Better use of existing resources may be as important as the creation of new capacity.

38. On the basis of the preceding considerations, it is forecast that developing Africa output may grow by 3.3 per cent in 1991. Oil-exporting countries would grow by 3.7 per cent and oil-importing countries by 2.8 per cent. North African countries will do better than in 1990, their combined GDP growing by 3.2 per cent, with a similar development in sub-Saharan Africa, where output is also expected to rise by 3.2 per cent after a mere 2.0 per cent rise in 1990. The least developed countries, which suffered a drop of .3 per cent of output, will recover, their GDP growing by 2.7 per cent and, among them, the countries of the Sahel will recover from a 1.2 per cent fall in output to a rise of 2.4 per cent.

39. The forecasts presented above may prove to be rather optimistic, particularly concerning the oil-exporting countries. The fall of oil prices is bound to have a strong negative influence on their economies, which in many cases are under heavy debt service pressure. Therefore if the output growth of the oil-exporting countries were to fall to 3 per cent, overall growth for developing Africa could be only 2.9 per cent in 1991.

Notes

1/ General Assembly resolution 35/66 B.

2/ General Assembly resolution 44/237.